

Message Text

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ACTION EA-09

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FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 977

C O N F I D E N T I A L KUALA LUMPUR 4862

E.O. 11652: GDS

TAGS: OVIP, EFIN, MY

SUBJ: VISIT OF GOM DEPUTY FINANCE MINISTER CHONG

REF: A. STATE 181809; B. K.L. 3059 (EXDIS)

1. AS REQUESTED REFTEL, REVIEW OF OUR NOTES OF MAY 31 ECONOMIC ROUND TABLE REVEALS THAT GOM STATED THAT WORLD-WIDE RECESSION WILL CAUSE FINANCIAL STRAIN IN IMPLEMENTING THIRD MALAYSIA PLAN, THAT GOM HOPES NOT TO DIVERT DEVELOPMENT FUNDS TO SECURITY AND THEREFORE THAT GOM WILL BE SEEKING MORE EXTERNAL FINANCIAL ASSISTANCE DURING 3RD PLAN THAN IN 2ND PLAN, PARTICULARLY LOANS ON LONG-TERM BASIS. TO EXTENT SUCH LOANS ARE UTILIZED IN SOCIAL DEVELOPMENT, SOFT TERMS REQUIRED BECAUSE OF NO PAYBACK FACTOR.

2. AFTER DISCUSSION OF EX-IM AS GOOD BUT UNDER-UTILIZED SOURCE FOR MALAYSIA, DLF WAS RAISED. IT WAS NOTED THAT DLF AVAILABLE ONLY IN SPECIAL CIRCUMSTANCES FOR SPECIFIC PURPOSE, PRIMARILY FOR COUNTRIES WITH LOW PER CAPITA INCOME. OUR NOTES INDICATE THAT HABIB STATED THAT HE WOULD EXPLORE ("I'LL EXPLORE") DLF POSSIBLY FOR USE RE SOCIAL DEVELOPMENT PROJECTS BUT HE NOTED THAT IN VIEW ITS PROSPERITY, MALAYSIA SHOULD GO TO IFI'S.

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3. RE IMF, GOM EXPRESSED VIEW THAT GREATER UNDERSTANDING ON TIN AND RUBBER WOULD BE HELPFUL, MENTIONING IN PARTICULAR IMF BUFFER STOCK FINANCING, AVAILABILITY OF WHICH PRESENTLY IS FUNCTION OF BALANCE OF PAYMENTS POSITION. GOP ASKED IF THIS COULD BE LOOKED INTO, NOTING THAT U.S. REP IN IMF HAS NOT BEEN HELPFUL. HABIB SAID HE WOULD INQUIRE.

4. ON ASEAN, HABIB REFERRED TO OUR INITIAL APPROACHES TO ASEAN COUNTRIES RE ECONOMIC CONSULTATION, NOTING THAT U.S. HAD BEEN PUT OFF, AND STATING THAT WHEN ASEAN IS READY, U.S. IS READY TO TALK.

5. COMMENT: MAINTENANCE OF ADEQUATE RATE OF ECONOMIC GROWTH IS, OF COURSE, DIRECTLY RELATED TO SATISFACTORY MANAGEMENT OF COMMUNAL PROBLEM IN MALAYSIA. GOM RECENTLY HAS TAPPED NEW SOURCES OF FUNDS FOR ECONOMIC AND SOCIAL DEVELOPMENT AND, IN THIS PERIOD OF ECONOMIC DECLINE, WOULD, OF COURSE, BE PLEASED SECURE ADDITIONAL FUNDS ON SOFT TERMS, WHICH NOT NORMALLY AVAILABLE BECAUSE OF MALAYSIA'S ECONOMIC WELL BEING. HOWEVER, THERE IS NO INDICATION THAT MALAYSIA COULD NOT OBTAIN ADDITIONAL FUNDS FROM BOTH THE IFI'S AND PRIVATE SOURCES AS NEEDED, ALTHOUGH SUCH DRAWINGS WOULD BE ON HARD OR COMMERCIAL TERMS. THE PROBLEM FOR THE GOM IS ESSENTIALLY ONE OF CASH FLOW, SINCE REVENUES HAVE DECLINED MORE RAPIDLY THAN ANTICIPATED. THERE HAS ALSO BEEN SOME DRAWDOWN OF FOREIGN EXCHANGE RESERVES, ALTHOUGH THEY STILL REMAIN (JULY 31) AT U.S. \$1.38 BILLION. MALAYSIA IS RUNNING A SMALL TRADE SURPLUS THUS FAR IN 1975 AND HAS REDUCED INFLATION TO AN ANNUAL RATE OF ABOUT 7 OR 8 PERCENT. IN SUM, WHILE A COMPELLING CASE FOR DLF ON ECONOMIC GROUNDS IS NOT APPARENT, IT DOES PROVIDE ANOTHER MECHANISM TO FURTHER OUR RELATIONSHIPS WHICH MAY PROVE USEFUL OVER TIME. WE ARE INCLINED TO THINK, HOWEVER, THAT THIS PURPOSE WILL BE ACHIEVED THROUGH OUR ASSISTANCE IN THE AREA OF SECURITY AND THAT A FAVORABLE RESPONSE ON DLF IS NEITHER NEEDED NOR DESIRABLE.

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